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National Intelligence Bulletin

State Dept. review completed

Top Secret

26 October 1974

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Nº 648

Page Denied

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ITALY

Amintore Fanfani's failure to resuscitate the center-left coalition is almost certain to usher in a period of weak government by a caretaker administration.

Beginning Monday, President Leone will begin a new round of consultations with political leaders to consider the remaining options. Leone could ask another Christian Democrat to try to revive the coalition, but he is likely to view Fanfani's failure as evidence that the positions of the former coalition partners are for the moment irreconcilable.

Parliamentary arithmetic does not permit the formation of a workable non-Communist alternative to the center-left alignment. The probable outcome of Leone's consultations, therefore, is some kind of caretaker government--an all - Christian Democratic cabinet, for example. Such a government would stay in office until another attempt can be made to re-form the center-left coalition or, failing that, until the dissolution of parliament followed by new elections. The absence of the Socialists in a caretaker government would make it difficult to take any actions requiring a broad consensus.

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The Social Democrats, who triggered the crisis with an anti-Socialist outburst in early October, have insisted all along that the Socialists must give up their practice of allying with the Communist Party in certain local governments. Although the other coalition parties do not condone the Socialists' policy, they tend to look the other way in return for Socialist flexibility on other issues.

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The Social Democrats slammed the door on any compromise with the Socialists with a firm statement yesterday reiterating their position on the Communist question.

The Communists, meanwhile, are keeping a low profile, hoping to benefit from the disarray among the governing parties. They have toned down their appeals for more influence in national decision-making, showing little inclination to be saddled with responsibility for the country's growing economic problems. The Communists' main goal seems to be to see that regional elections--in which they expect to score gains--take place as scheduled this spring.

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PORTUGAL

Portuguese leaders are concerned that an anti-CIA press campaign will impair US-Portuguese relations and impede the Azores base negotiations.

Foreign Minister Soares informed the US embassy yesterday that he, President Costa Gomes, and Prime Minister Goncalves have decided to try to determine the source of the press campaign.

Earlier, Soares told the US ambassador that the recent articles were Communist-inspired. He said the Communists hoped to counter the favorable image of US-Portuguese relations that was created by the visit of Soares and Costa Gomes to the US. Soares said that the orchestrated campaign of defamation was aimed at him and Costa Gomes, not just the US. Prime Minister Goncalves will discuss the issue further with the ambassador next week.

The general theme of the recent press articles is that the CIA and the US embassy in Lisbon are actively engaged in espionage and other covert activities, and that they are responsible for recent events such as the pro-Spinola "silent majority" demonstration on September 28. [REDACTED]

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TURKEY

Foreign Minister Gunes said yesterday that a cutoff of US military aid would not change Turkey's policy on Cyprus but would affect joint defense relations with the US.

In the strongest reaction from a Turkish official so far, Gunes said, "When and if the aid actually stops, Turkey will be forced to review its entire mutual defense cooperation with the US." Gunes made no direct reference to the US military presence in Turkey, but he was clearly alluding to it when he noted that "if one participant in an agreement reduces its obligations, the other side feels the need to reconsider its own obligations."

Gunes emphasized, however, that whatever happened in terms of bilateral relations with the US, Turkey would remain a member of NATO. The foreign minister told reporters that if US equipment is not available, Turkey will seek alternative sources; he declined to elaborate.

Anti-US sentiment has been generally dormant in Turkey since the early days of hostility on Cyprus, but the military assistance issue could revive it. Official Turkish reaction to the possible aid cutoff has been characterized more by regret than by anger, but Gunes' statement suggests that the reaction could become tougher. [REDACTED]

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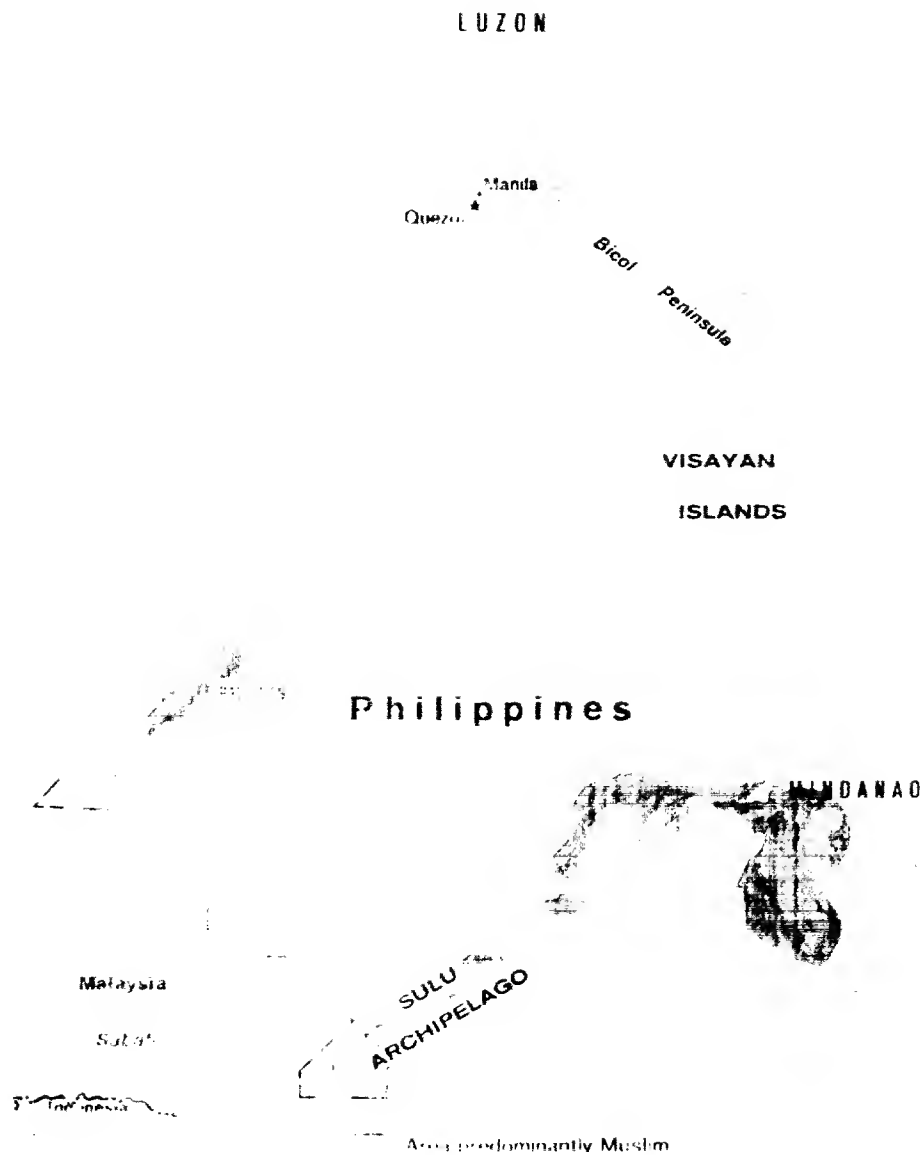
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PHILIPPINES

Deteriorating discipline and morale in military units in the south could hamper government efforts against Muslim insurgents.

Interservice rivalries have erupted on several recent occasions into armed clashes between units of different services. A further reflection of the breakdown of discipline has been the killing of three battalion commanders in recent months by their own troops. Civilians have also been the victims of military abuse, including lootings and indiscriminate killings. Earlier this month, some 300 Muslim noncombatants reportedly were shot by troops during operations in southern Mindanao.

The unpopularity of service in the southern islands has contributed to morale problems and to the military's poor performance against the well-supplied Muslim rebels. Military commanders complain that their operations are hampered by political restraints. Troop annoyance over long tours of duty and uncertain prospects for promotion is compounded by bad leadership and blatant graft among officers.

Dissent within military ranks apparently has not become organized, and the government has been able to repress widespread knowledge of the problems. Following a recent inspection tour of the area, the armed forces chief of staff expressed dismay over the situation and ordered remedial measures, but it is questionable whether he can reverse the trend.

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UN - SOUTH AFRICA

Three black African members of the UN Security Council yesterday formally submitted a resolution calling on the UN to expel South Africa.

The resolution--sponsored by Kenya, Cameroon, and Mauritania--is expected to be voted on next week. It appears that only a veto by one of the permanent members of the Security Council will prevent the resolution from being adopted.

Until yesterday, it appeared that the Africans would be satisfied if the Security Council merely suspended South African membership and called on Pretoria to take specific steps to ameliorate apartheid.

On Thursday, South Africa's ambassador to the UN informed a US official that if the black Africans rejected the offer of cooperation he made in his speech to the UN, there would be a strong reaction in Pretoria and no movement at all to end apartheid.

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EC

The EC Council of Agricultural Ministers agreed at a meeting on October 21-22 to increase the maximum EC sugar production quota by 22 percent and to subsidize up to 200,000 tons of sugar imports in the first half of 1975. The UK will receive most or all of the subsidy, thus eliminating the need for the UK to sign a long-term contract with Australia to ease its sugar shortage.

Although the EC import subsidy covers only two thirds of Britain's minimum annual shortfall of 300,000 tons, additional quantities may be subsidized for the new marketing year beginning July 1. By that time, however, the larger EC sugar production quotas will be in effect and could provide additional sugar for the UK. For the 1975-76 marketing year, EC sugar production quotas are set at more than 13 million tons, while internal EC consumption is estimated at only 10.4 million tons.

The agreement to limit the quantity of sugar covered by subsidies is a compromise between British demands for assistance and West German concerns over the cost of the open-ended subsidy plan originally proposed by the EC Commission. The Commission reportedly believes that a supplementary budget will not be necessary to finance the sugar import subsidies--which may cost about \$50 million--because it is reducing export subsidies on grain, pork, and poultry.

Initial British reaction to the subsidization scheme has been mostly favorable, but the large UK sugar-refining industry is still concerned about long-term supplies. An important segment of the industry refines cane sugar for re-export and cannot readily adjust to refining beet sugar produced in the EC. Nevertheless, the scheme should bolster the prestige of pro-EC forces and provide less expensive sugar to the British consumer. [REDACTED]

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WEST GERMANY

West Germany's trade surplus in the third quarter of this year was \$5.7 billion--a slight decline from the levels of the first two quarters. Nevertheless, the \$18-billion surplus for the first nine months already exceeds the \$16-billion figure for all of 1973.

The sharp rise in the value of exports is attributable largely to price increases. Export volume has stagnated in recent months because of deteriorating economic conditions throughout the industrialized world and, in particular, the slump in the international automobile market. Import volume, depressed all year, picked up slightly in the third quarter, probably reflecting increased consumer demand resulting from the wage hikes of late spring.

The trade surplus is likely to continue to narrow through December. For the entire year, it will probably exceed \$23 billion, the largest surplus in the industrialized West.

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GUYANA

The dispute between Guyana and the American-owned Reynolds Guyana Mines company over payment of a large bauxite levy retroactive to January is building into an issue of major national concern in Guyana.

Prime Minister Burnham's government has repeatedly warned of alleged US intentions to intervene on the company's behalf and force a confrontation with the Guyanese government. One measure of the atmosphere in Georgetown is a recent editorial in a state-owned newspaper that predicts US intervention "in the Caribbean as a whole" to protect American bauxite interests there.

While Burnham may genuinely fear repercussions from the US, his reaction to US activity is overdrawn and could reflect his desire to establish his position among Third World countries. Moreover, Burnham may want to preempt moves by Cheddi Jagan and the opposition parties to exploit the issue for their own advantage.

Following Reynolds' refusal to pay the tax imposed last month, Guyana brought suit against the company and restricted Reynolds' exports. These moves have been supported by a vigorous campaign in the press aimed at denigrating the US and emphasizing that all the Guyanese people approve of the levy.

In a recent development, Reynolds furloughed about 40 percent of its Guyanese work force. This decision has been interpreted by Guyana as an effort to bring pressure against the government and as a deliberate attempt by the company to abandon its operations in hope of receiving compensation from the U.S. Overseas Private Investment Corporation.

Guyanese officials also claim that the World Bank's delay in funding an electricity expansion project is the result of US pressure and is directly tied to the Reynolds dispute. US spokesmen believe the delay is caused by purely economic factors.

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